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C O N F I D E N T I A L KUWAIT 000129

SIPDIS

STATE FOR NEA/ARP, S/CT, EEB/IFD/OMA
TREASURY FOR DEPUTY SECRETARY WOLIN

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TAGS: [EFIN](#) [PREL](#) [PTER](#) [KTFN](#) [OVIP](#) [KU](#)

SUBJECT: KUWAIT: SCENESETTER FOR DEPUTY SECRETARY OF
TREASURY WOLIN

REF: A. 09 KUWAIT 951

[B.](#) 09 KUWAIT 882

[C.](#) 09 KUWAIT 1037

[D.](#) 09 KUWAIT 431

[E.](#) 09 KUWAIT 921

Classified By: Economic Counselor Oliver B. John for reasons 1.4 (b & d).

[11.](#) (SBU) Ambassador and Mission Kuwait cordially welcome the February 16-18 visit of Deputy Secretary of Treasury Neal S. Wolin.

[12.](#) (SBU) Situated at the nexus of Iraq, Iran, and the Kingdom of Saudi Arabia, Kuwait is a constitutional emirate with a freely-elected -- and rambunctious -- parliament. Although slightly smaller than the state of New Jersey, Kuwait is an important oil exporter and international investor. Literacy is among the highest in the Arab world and many Kuwaitis, particularly the Kuwaiti elite, have studied in, or traveled to, the United States.

US- Kuwait Security Relations

[13.](#) (C) Our strong bilateral relationship is founded upon close security ties, which are manifested today in Kuwait's role as a key military training and logistical support hub for Operation Iraqi Freedom (OIF). Kuwaiti support for the U.S. military presence has included, in material terms alone, over USD 1.2 billion annually in such benefits as free access to bases, waived port and air support fees, customs waivers, subsidized fuel and other services. Kuwait also provides the U.S. military with essentially open access to ten bases and access to its 2,250 sq/km Udairi Range facility. Over 20,000 U.S. military personnel (including some 5,000 contractors) are located at bases and facilities in Kuwait. In CY 2008 alone, some 1,750,000 U.S. forces transited through Kuwait, either en route to Iraq or other deployment locations or back to the U.S. U.S. military operational flexibility in Kuwait has been largely governed by the favorable terms of a Defense Cooperation Agreement (DCA) with the GoK signed in 1991 and extended for ten years in 2001.

Economic Overview

[15.](#) (SBU) Kuwait has the third largest economy in the GCC, behind Saudi Arabia and the UAE and controls about 9 percent of the world's proven oil reserves. Oil makes up around 95% of the government's revenues, and the Kuwaitis use very conservative figures for budgeting purposes. In the first eight months of the fiscal year (through November), Kuwait earned approximately USD 36.7 billion from energy exports, turning a projected deficit into what will almost certainly be the 11th straight year of a budget surplus. Kuwait's savings from surplus revenue provided a safety net for the

financial sector during the recent global economic crisis, but Kuwait still suffered some high profile problems; including the bail out of Gulf Bank, the country's third largest bank, high profile debt restructurings for Global Investment House, and the first default on an Islamic Sukuk in the region.

¶6. (SBU) Although high oil prices and significant reserves have helped Kuwait withstand the worst effects of the global economic downturn, it faces a longer term problem. The economy is heavily dependent on oil revenues and government largesse. The demographic shift from &have8 to relative &have notes8 of the Bedouin tribal community plays out in a generally contentious parliamentary - government relationship. For many years, despite the Amir,s &vision8 of diversifying the economy away from a dependence on oil and gas, governmental-parliamentary squabbles and a generally poor business climate have stalled much progress. There have been recent movements that are leading to cautious optimism among the Kuwaiti business community including: parliamentary passage of a 4-year \$104 billion development plan and a law to create an independent capital market authority to regulate Kuwait,s stock market. In addition, the government rejected a highly populist bill that would have written off interest on consumer loans. On the monetary side, the Central Bank just lowered its discount rate by 50 basis points to 2 and a half percent to open up the credit markets.

Oil Committed to Getting to 4 mmb/d by 2020

¶7. (SBU) Kuwaiti officials have stated a commitment to increase sustainable oil production capacity to 4 million barrels per day (mmb/d) by 2020. Kuwait Petroleum

Corporation is planning to invest approximately USD 80 billion over the next five years (divided between upstream and down stream investments) in furtherance of that goal. The plans include drilling over 500 new wells and developing the related infrastructure as well as upgrading Kuwait's existing refineries to produce cleaner fuels and to tender a 4th refinery to produce low sulfur fuel oil for Kuwait's own power plants. That tender was cancelled under parliamentary pressure. Kuwait is currently importing LNG during the summer months and has been in long -- but unproductive -- discussions with Iran, Iraq, and Qatar to import natural gas.

Investments

¶8. (SBU) Kuwait,s Sovereign Wealth Fund, the Kuwait Investment Authority is estimated to hold over USD 200 billion making Kuwait a major international investor. Although KIA does not disclose its asset allocation strategy, it is a major investor in the U.S. (as are Kuwaiti private sector investors). KIA officials have stated that they are looking to grow their Asian portfolio as they see long term growth potential there. KIA officials have also said that changes to the U.S. tax code in the late 1990s caused them to divest from their U.S. real estate holdings. According to one KIA official, real estate investments in the U.S. are "zero." KIA reportedly sold its stake in Citi at a profit of around USD one billion and invested USD 750 million in the U.S. asset Blackrock.

¶9. (SBU) On the flip side, Kuwait attracts very little inward investment. The investment climate in Kuwait is generally regarded as poor and -- with the exception of Dow Chemical and Citigroup -- there is little U.S. direct or portfolio investment in Kuwait. The World Bank Doing Business Indicators report of 2010 ranked Kuwait 61 out of 183 countries in terms of ease of doing business and 137 with respect to difficulty in starting a business. In February, Kuwait passed a law to establish a Capital Markets Authority to regulate the Kuwait Stock Exchange (KSE). While the KSE is one of the oldest trading markets in the region, it was the last in the Gulf to have an independent regulator. According to most market participants, the KSE is an opaque market, rife with insider trading. In general, the market

can fluctuate widely on rumors and innuendo. The new regulatory framework is aimed at fixing some of these problems, but the question will be how well the rules are implemented and enforced.

Financial Crimes: Money Laundering and Terrorism Financing

¶10. (C) In October 2009, post proposed a strategy of using positive engagement to move the GoK forward on anti-money laundering and terror finance issues. Recent interagency (State, Treasury and Justice) support of the December National Anti Money Laundering (AML) conference, the feedback we provided the GoK about the draft AML law, and separate visits from Treasury A/S Cohen and C/T Benjamin were timely. GoK interlocutors have been generally receptive to the idea of an enhanced bilateral training programs aimed at combating financial crimes. The proposed interagency capacity building program has already begun to build a constituency among ministries who currently have financial crimes oversight (Ministry of Social Affairs and Labor, Ministry of Commerce, Ministry of Justice, Customs and Borders, and the Central Bank), as has our willingness to help the GoK take the necessary steps for a favorable Financial Action Task Force (FATF) evaluation.

¶11. (C) While incremental progress is possible within the existing legal framework, passage of an amended AML/CTF law is essential to give GoK authorities the necessary legal tools to effectively combat terror financing and other financial crimes. According to GoK officials, the amended law no. 328 will address many of the inadequacies of the current law including the following: Definitions for Terrorism and Terrorism Financing, Re-defining the Financial Intelligence Unit (FIU) and its assignments to meet FATF standards, and expanding the definitions for money laundering crimes. The law which has already been blessed by the Central Bank, Ministry of Finance, and Legal Advisors, was recently passed to the Financial Committee within the National Assembly for review. Central Bank officials have told us that they have communicated to the parliament's Financial Committee that this is an important bill, but some parliamentarians have said that they do not see it as a GoK priority. The Ambassador recently stressed again to the FM the importance we attach to this legislation as an indication

of GoK seriousness in addressing this problem.

¶12. (C) Despite weaknesses in the law, Kuwaitis have made progress in: improving charitable oversight domestically and abroad (ref a), and in regulating the gold and jewelry markets (ref b). We have seen two successful terrorist finance-related prosecutions in 2009, but sentences for convicted financiers and facilitators have been light and have been pursued under a limited criminal law. Two cases in 2009 include the prosecution (and sentencing) of UNSCR 1267 designee Mubarak Al-Bathali on January 27, 2009 (ref d) and Ltc. Khalil Al-Ghaith for terrorist financing and facilitating in August 2009 (ref e). The GoK is also engaged in several public awareness campaigns including the impact of money laundering and a de-radicalization campaign highlighting the negative impact of extremism. The issue of the U.S. designated Kuwaiti Charity the Revival of Islamic Heritage Society, continues to be a contentious one. The Kuwaiti position is that the charity does good work and acts as a bulwark against Iranian efforts to buy influence in poorer Sunni areas. In addition, the GoK has argued that the USG has not provided any actionable evidence (as opposed to intelligence) to justify legal actions against RIHS. Renewable Energy, Energy Efficiency and Nuclear Power

¶13. (SBU) Kuwaiti officials have expressed interest in renewable energy and energy efficiency cooperation to address Kuwait's growing power demand, projected to increase at a rate of 6% to 8% per year (ref c). They have expressed their hope that Kuwait will generate at least 10% of Kuwait's power from renewable energy by 2020, and have outlined a plan to evaluate wind and solar power as options. The Kuwait Institute for Scientific Research (KISR) is currently evaluating a proposal by the U.S. National Renewable Energy

Lab to take a broad brush look at developing renewable energy in the country, but is concerned about the cost. For its part, the Kuwait Petroleum Corporation is in the initial phases of evaluating carbon capture technology as a commercially viable reservoir management tool, which would both reduce CO₂ emissions and enhance Kuwait's oil recovery. Despite these initiatives, however, we understand that Kuwait, following GCC consensus, does not plan to associate itself with the Copenhagen Accord.

¶14. (SBU) Realizing that renewable energy is not likely to be able to meet Kuwait's baseload needs, Kuwait has set up a committee, headed by the Prime Minister, to examine the potential for developing peaceful nuclear power. The Kuwaitis are taking a very careful approach to evaluating resources both economic and human required to regulate and run a nuclear power program. Even if Kuwait decided not to develop its own domestic capability, the steps would be important for any GCC nuclear power projects.

Meetings

¶15. (SBU) We have confirmed meetings with Kuwait Investment Authority Managing Director, Bader Al Saad; Minister of Finance, Mustafa Al Shamali; Central Bank Governor, Sheikh Salem Abdulaziz Al Sabah; and the Economic Advisor to the Emir, Dr. Yousef Al Ibrahim. Ambassador will also be hosting a reception in your honor with members of the financial community. Unfortunately, the Prime Minister, Foreign Minister, and Minister of Interior will not be available as the Amir has invited the Kuwaiti cabinet for a luncheon "offsite" on February 17.

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